

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-01  
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02  
SS-15 USIA-06 AID-05 TRSE-00 OMB-01 EB-08 COME-00  
SIL-01 LAB-04 /087 W  
-----090722Z 009328 /11

R 081642Z APR 77  
FM AMEMBASSY TUNIS  
TO SECSTATE WASHDC 6366  
INFO AMEMBASSY ALGIERS  
AMEMBASSY PARIS  
AMEMBASSY TRIPOLI

C O N F I D E N T I A L SECTION 1 OF 2 TUNIS 2472

E.O. 11652: GDS  
TAGS: PINT; PFOR, EGEN, ELAB, TS  
SUBJECT: GOT RETREATS ON 1977 TAX POLICIES

REF: TUNIS 097, TUNIS 517, TUNIS 607, TUNIS A-039

1. SUMMARY. IT IS NOW EVIDENT THAT GOT HAS PASSED WORD IN MIDDLE CLASS CIRCLES THAT IT WILL NOT ENFORCE STIFF NEW TAX MEASURES ENACTED INTO THE 1977 BUDGET (SEE TUNIS 097). THIS RETREAT APPEARS TO BE RESULT OF SEVERE NEGATIVE REACTION BY DOCTORS AND LAWYERS AND TO A MARKED DROP IN BUSINESSMEN'S CONFIDENCE IN NOUIRA. PRESIDENT BOURGUIBA TOOK DIRECT ROLE IN GOT RETREAT ON TAX POLICY BY COUNSELING NOUIRA TO APPLY NEW TAXES "FLEXIBLY." PRIME MINISTER NOUIRA'S POLITICAL WOES HAVE INCREASED WITH THESE DEVELOPMENTS AND THE EXPECTED EFFECTS OF THIS YEAR'S DROUGHT. AS CONFLICT WITH LIBYA OVER CONTINENTAL SHELF PETROLEUM RESOURCES HEATS UP, IT APPEARS THAT HE ACES AN ESPCIALY DIFFICULT YEAR. END SUMMARY.

2. IN THE PAST FEW WEEKS IT HAS BECOME EVIDENT THAT THE  
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SEVERE NEGATIVE REACTION OF TUNISIAN MIDDLE CLASS (SEE TUNIS 607) TO GOT'S 1977 INCOME TAX MEASURES HAS FORCED IT INTO A TACTICAL RETREAT. ALSO AS A RESULT OF THE ANNOUNCED TAX MEASURES, THE REAL ESTATE MARKET HAS BEEN VIRTUALLY FROZEN AND NEW CAR SALES HAVE STAGNATED. WE UNDERSTAND THAT SCATTERED SMALL BANK BRANCHES HAVE BEEN FACED WITH MINOR LIQUIDITY PROBLEMS AS DEPOSITORS WITHDREW

SAVINGS ACCOUNTS IN ORDER TO HIDE THE EXTENT OF THEIR WEALTH FROM TAX INSPECTORS. FINALLY, THE BUSINESS COMMUNITY, WHICH HAS BEEN AMONG NOUIRA'S MOST IMPORTANT SUPPORTERS, BEGAN TO QUESTION HIS COMMITMENT TO POLICIES THAT SERVE THEIR NEEDS. NOUIRA ANSWERED THIS CRITICISM IN A PUBLIC MEETING N MARCH 19 (SEE A039), BUT IT IS NOT CLEAR THAT HE DISPELLED SERIOUS DOUBTS ABOUT THE DIRECTION GOT POLICY IS TAKING.

3. PARALLEL TO OPPOSITION TO 1977 TAX POLICIES, THE TUNISIAN MIDDLE CLASS HAS TEKAN NOTE OF THE MILITANT ROLE NOW PLAYED BY THE TRADE UNION MOVEMENT. THE UGTT CONGRESS HELD FROM MARCH 24 TO 27 (SEE TUNIS 2395) PROVIDED GRAPHIC EVIDENCE OF THE INTENTION OF THE TRADE UNIONISTS TO KEEP UP PRESSURE FOR MORE BENEFITS. BUSINESSMEN WERE PARTICULARLY SHOCKED BY HABIB ACHOUR'S CALL FOR A 60 DINAR MINIMUM WAGE (20 DINARS ABOVE THE LEVEL SET ON JANUARY 19 IN THE "SOCIAL COMPACT") AND RAGARD IT AS A BREACH OF FAITH AND DIRECT CHALLENGE TO THE GOVERNMENT. WHILE THE "SOCIAL COMPACT" HAD PROMISED WAGE INCREASES TO MATCH COST OF LIVING INCREASES, THE BUSINESS COMMUNITY HAD INTERPRETED IT AS A "WAGE FREEZE," OR AT LEAST A GUARANTEE OF MODERATE INCREASES OVER THE NEXT FIVE YEARS. MEANWHILE, THE GOT'S NEW STUDENT POLICY, WHICH WAS INTENDED TO PUT AN END TO CHRONIC DISRUPTION OF THE UNIVERSITY BY RADICAL DISSIDENTS, APPEARS TO BE A FAILURE AND TUNISIANS CAN ONLY LOOK FORWARD TO MORE STUDENT AGITATION. FINALLY, THE 1977 DROUGHT WILL HAVE SERIOUS SOCIAL AND ECONOMIC CONSEQUENCES. RURAL AREAS WILL BE LESS CAPABLE OF SUPPORTING THEIR POPULATION AND PEASANTS MAY MOVE INTO THE CITIES IN GREATER NUMBERS TO SEEK  
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EMPLOYMENT IN A TIGHT JOB MARKET. EQUALLY, CROP FAILURE WILL MEAN THAT RURAL CONSUMERS WILL HAVE LESS MONEY TO SPEND ON TUNISIA'S MANUFACTURED PRODUCTS.

4. PRESIDENT BOURGUIBA APPEARS TO HAVE TAKEN A DIRECT ROLE IN THE GOT'S RETREAT ON 1977 TAX MEASURES. HE MET WITH NOUIRA ON MARCH 30 AND THE PRIME MINISTER TOLD THE PRESS THAT HE HAD BEEN ADVISED TO APPLY THE NEW TAX MEASURES WITH "FLEXIBILITY." WE UNDERSTAND THAT BOURGUIBA WAS IRRITATED WHEN HE HEARD OF THE SEVERE NEGATIVE REACTION TO THE 1977 TAXES AND TOOK IT AS AN INDICATION OF NOUIRA'S POOR POLITICAL SKILL.

5. THE POLITICAL IMPACT OF THESE DEVELOPMENTS IS CLEARLY MORE SIGNIFICANT THAN THEIR REAL ECONOMIC EFFECTS AND IT APPEARS THAT THE GOVERNMENT WILL EVENTUALLY GET WHAT IT WANTED OUT OF THE 1977 TAX PACKAGE. THE GOT, WHILE TELLING PROFESSIONALS THAT THEY WOULD NOT HAVE TO WORRY ABOUT THE 1977 TAX MEASURES, HAS PUT THEM ON NOTICE THAT NEXT

YEAR'S BUDGET WILL HAVE MEASURES DESIGNED TO IMPROVE TAX COLLECTION. STAGNATION OF CAR SALES IS JUST WHAT THE GOT INTENDED TO ACHIEVE AND THE FREEZE OF REAL ESTATE SALES HURTS ONLY PRIVATE PROPERTY HOLDERS WHO DO NOT WANT TO SEE THEIR PROFITS EATEN UP BY THE NEW CAPITAL GAINS TAXES. AS FOR BUSINESSMEN, THEIR DISENCHANTMENT WITH NOUIRA WILL PROBABLY EVAPORATE WHEN THEY RECOGNIZE THAT HE HAS NOT ALTERED THE BASIC GOT POLICY OF FAVORING PRIVATE ENTERPRISE AND THAT NO OTHER FIGUYE IN TUNISIAN POLITICS IS LIKELY TO FOLLOW POLICIES AS FAVORABLE TO THEM AS NOUIRA'S.

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C O N F I D E N T I A L SECTION 2 OF 2 TUNIS 2472

6. THESE DEVELOPMENTS TAKE ON ADDITIONAL POLITICAL SIGNIFICANCE WHEN VIEWED IN THE PERSPECTIVE OF THE EVOLVING RELATIONSHIP BETWEEN BOURGUIBA AND NOUIRA SINCE JANUARY 14. WHILE THE PRESIDENT HAS NOT RETRACTED HIS STATEMENT THAT HE WOULD LEAVE THE BURDEN OF GOVERNING TUNISIAN TO NOUIRA, HE HAS BEGUN TO SEE MORE TUNISIAN AND FOREIGN VISITORS. THESE MEETINGS KEEP HIM IN TOUCH WITH CURRENT AFFAIRS WHILE HE IS, IN PRINCIPLE, NOT RESPONSIBLE FOR THE CONDUCT OF THE GOVERNMENT. SOME TUNISIAN ASSERT THAT THIS IS A FAMILIAR PATTERN FOR BOURGUIBA THAT PERMITS HIM TO UNLOAD LIEUTENANTS WHOSE USEFULNESS TO HIM HAS DRAWN TO AN END. NOUIRA, IN THE MEANTIME, IS OUT ON A POLITICAL LIMB THAT HE HAS NEVER OCCUPIED BEFORE. HE FINDS HIMSELF IN TROUBLE WITH BUSINESS AND PROFESSIONAL GROUPS AND IDENTIFIED WITH A TRADE UNION MOVEMENT THAT CONTINUES TO DEMAND MORE THAN HE WANTS TO GIVE AND IT IS A DILIMMA

FROM WHICH HE MUST EXTRICATE HIMSELF.

7. WE BELIEVE THAT NOUIRA'S POSITION REMAINS STRONG  
AND DO NOT EXPECT THAT HIS TENURE IN THE PRIME MINISTRY  
HAS BEEN PLACED IN JEOPARDY BY THE DEVELOPMENTS WE HAVE  
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DESCRIBED. HE REMAINS THE TOP TUNISIAN OFFICIAL BEST  
EQUIPPED TO MANAGE A DEVELOPING ECONOMY AND HIS RECORD  
OVER THE PAST SEVEN YEARS REMAINS IMPRESSIVE. AS NOUIRA  
TAKES A GREATER POLITICAL ROLE, HOWEVER, HIS VALUE TO  
BOURGUIBA MAY DECLINE AS HE SHOWS HIS TRUE POLITICAL  
METTLE. IN THIS AREA, FEW TUNISIANS FIND HIM TO BE  
THE HIGH CARBON STEEL THAT HE IS IN ECONOMICS. THE COMING  
YEAR, WHICH PROMISES TO BE A DIFFICULT ONE FOR TUNISIA  
AS CONFLICT WITH LIBYA INTENSIFIES, WILL UNDOUBTEDLY BE  
A DIFFICULT ONE FOR NOUIRA AS WELL.

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